

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Santa Cruz Elementary School District No. 28**

Year Ended June 30, 2005

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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
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**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

March 23, 2007

Governing Board  
Santa Cruz Elementary School District No. 28  
HC 2 Box 50  
Nogales, AZ 85621

Members of the Board:

We have reviewed the District's audit reports for the years ended June 30, 2004 and 2005, and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2005, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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# INTRODUCTION

Santa Cruz Elementary School District No. 28 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.2 million it received in fiscal year 2005 to provide this education.

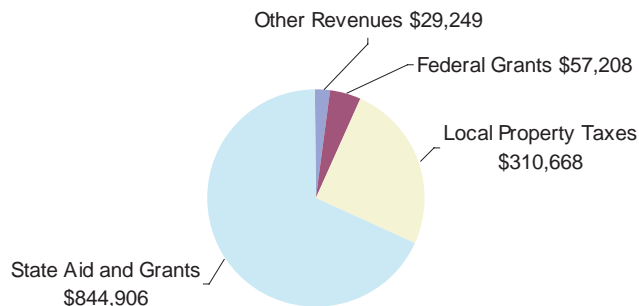
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2005, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

## District Facts Fiscal Year 2005

County: Santa Cruz  
Number of Schools: 1

Number of Students: 121  
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2004-2005 and Santa Cruz Elementary School District No. 28 Report on Audit of Financial Statements and Report on Internal Control and on Compliance for the Year Ended June 30, 2005.*

# The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding since the District did not record and report membership and absences correctly.

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not always maintain accurate student attendance records. Specifically, the District did not maintain documentation to support membership and absence information reported to ADE or absences recorded in the District's computerized attendance system. Also, teachers' attendance records did not always indicate the first day of attendance, and the District did not always prepare withdrawal forms. In addition, withdrawal dates recorded in the District's computerized attendance system did not always agree to withdrawal forms and teachers' attendance registers. Further, the District did not always record partial-day attendance properly or submit membership and absence information to ADE at least every 20 days.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Retain documentation, including student attendance registers, membership and absence reports, entry forms, and Official Notice of Pupil Withdrawal forms to support the amounts reported.
- Require all entry and withdrawal forms to be dated and have a second employee verify that the entry and withdrawal dates recorded on the forms agree with the dates in the District's computerized attendance system and teachers' attendance records.
- Record entries and withdrawals in the computerized attendance system within 5 working days of the date of entry or withdrawal, as applicable.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half days, as follows:
  - Attendance of at least 3/4 of the instructional time scheduled for the day should be counted as a full day of attendance.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Attendance for at least 1/2, but less than 3/4, of the instructional time scheduled for the day should be counted as a 1/2 day of attendance.
- Submit membership and absence information to ADE electronically at least once every 20 school days through the last day of instruction.

## The District's controls over student activities monies should be strengthened

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting, depositing and spending them. However, proper oversight was not established. For example, the District inappropriately held a raffle to raise student activities funds. In addition, the District did not prepare reports that reconciled sales to cash collected and did not always deposit cash receipts in a timely manner. Also, the District did not retain documentation to support disbursements, including evidence of student approval. Additionally, the District inappropriately paid student activities disbursements through the Maintenance and Operation (M&O) Fund revolving bank account, and as a result, checks did not have two authorized signatures. Further, the District did not appoint a student activities treasurer and did not account for student clubs separately within the Student Activities Fund.

The District did not effectively carry out its fiduciary responsibility over student activities cash receipts and disbursements.

## Recommendations

To strengthen controls over student activities monies, the District should:

- Ensure that student clubs do not hold raffles to raise funds. Only clubs that are not school controlled (such as off-campus clubs, clubs sponsored by civic groups, or parent-teacher organizations), and fit within the tax-exempt categories defined by Arizona Revised Statutes (A.R.S.) §43-1201, may hold raffles, provided they also meet the requirements of A.R.S. §13-3304(B).
- Require that student clubs prepare cash collection reports to document and reconcile cash collections to tickets or items sold. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, clubs should still prepare cash collection reports to document cash collected.
- Deposit all student activities cash receipts daily, if significant, or at least weekly into a student activities bank account.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

- Make disbursements from the student activities bank account only after approval by the student club. The club should document the approval in their meeting minutes.
- Retain documentation such as check requests or purchase requisitions, purchase orders, receiving reports, and vendor invoices to support student activities disbursements.
- Have the Governing Board appoint an employee as a student activities treasurer to provide oversight, maintain club records, and sign student activities checks. Student activities checks should be signed by the student activities treasurer and one other person authorized by the Governing Board.
- Maintain separate accounting records and cash balances for each student club.

## The District should improve controls over its Maintenance and Operation Fund revolving bank account

The District mishandled cash receipts and did not properly administer the M & O revolving bank account.

Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash and ensure that it is properly accounted for. However, the District did not have adequate controls over its M&O Fund revolving bank account. Specifically, the District inappropriately deposited cash receipts in the M&O Fund revolving bank account instead of replenishing the account by warrants drawn on the County Treasurer. In addition, the District did not always retain documentation to support expenditures, and did not ensure that disbursements were made only for expenditures requiring immediate cash outlay. Also, the District inappropriately wrote a check payable to cash from the account for \$370 and did not reconcile the account on a monthly basis.

## Recommendations

To help strengthen controls over cash and the M&O Fund revolving bank account, the District should:

- Operate the revolving bank account on an imprest basis. Monies in the bank, plus the total of paid invoices and bank service charges, should equal the authorized revolving account imprest amount.

- Replenish the revolving bank account only by warrants drawn on the County Treasurer. Cash receipts should not be deposited in the account.
- Retain documentation, such as check requests, vendor invoices, and other supporting documentation, to support expenditures from the revolving bank account.
- Ensure the revolving bank account is used only for activities that require immediate cash outlay, such as postage, freight, travel, and other minor disbursements. Salaries and wages may not be paid from the revolving bank account.
- Complete revolving fund checks before issuance and ensure that checks are made out to a specific vendor and not written payable to cash or bearer.
- Assign an employee not responsible for handling cash or issuing checks to prepare written bank reconciliations monthly for all bank accounts. All reconciling items should be investigated and any necessary corrections made.

USFR pages VI-C-3 and 4 describe M&O Fund revolving bank account procedures.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

## The District should strengthen controls over competitive purchasing and expenditures

The District spends public monies to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that it receives the best possible value for the public monies it spends and that its expenditures are properly authorized. USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors to help ensure that districts receive the best possible value. However, the District did not always follow the USFR guidelines. For example, the District made a purchase through a cooperative in lieu of obtaining oral quotations, but did not perform due diligence procedures. In addition, the District did not retain documentation to support its determination of a vendor as sole source. Additionally, the District did not have adequate controls over expenditure processing as the District prepared revised purchase orders after the receipt of goods and services and did not always record expenditures in the correct fiscal year.

The District did not follow competitive purchasing requirements, and therefore, did not ensure it received the best value for the public monies it spent.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

Common prepaid items are listed on USFR page VI-G-11

## Recommendations

To comply with the USFR guidelines and to strengthen controls over expenditures, the District should:

- Document due-diligence procedures performed for at least a sample of the contracts that the District wishes to use from a purchasing cooperative to ensure that cooperative contracts were bid following the School District Procurement Rules.
- Obtain oral price quotations from three or more vendors for purchases costing between \$5,000 and \$15,000. If three quotations cannot be obtained, the District should document the vendors contacted who did not offer price quotations and the reason they would not do so.
- Retain documentation to support the determination of sole source vendors if the District determines that only one vendor provides the required goods or services. Sole source purchases should be avoided except when no reasonable alternative source exists.
- Prepare and approve purchase orders before ordering goods and services. Revisions to purchase orders should be prepared and approved before changes to an order are made. Purchase orders should not be revised after goods and services are received.
- Ensure expenditures are recorded in the correct fiscal year by preparing an advice of encumbrance for liabilities payable as of June 30 for all levy funds and recording payments of those liabilities in the accounting records of the prior fiscal year during the 60-day encumbrance period following June 30.
- Ensure that items are prepaid only if they are normally prepaid in order to procure it or to receive a discounted price.

## The District should maintain and report accurate financial and budgetary information

The District did not ensure that its adopted budget was equal to or less than the proposed budget presented to the public, as required by Arizona Revised Statute.

The District's Governing Board depends on accurate information to fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District should ensure that its budget, accounting records, and financial reports are accurate and complete and that transactions are properly authorized and recorded. However, the District did not fully accomplish

this objective. Specifically, the District's adopted budget exceeded the limits published in the proposed budget, student counts on the budget worksheets did not agree to the prior years' ADMS 46-1 report, and the prior year's budget balances for the Classroom Site Funds were not properly carried forward to the current year.

In addition, the District did not always code transactions in accordance with the USFR Chart of Accounts, retain documentation to support journal entries, and ensure that journal entries were approved prior to being recorded in the District's accounting records. Also, the District's stewardship list did not include the month and year of acquisition, and the District did not properly prepare or approve a disposal form when disposing of a vehicle.

Finally, budgeted expenditures reported in the Annual Financial Report (AFR) for the Unrestricted Capital Outlay Fund did not agree to the District's revised expenditure budget, and the District did not submit its AFR to the County School Superintendent (CSS).

## Recommendations

The following procedures can help the District budget, record, and report accurate financial information:

- Review the budget before adoption to ensure it is within the budget limits as published in the proposed expenditure budget.
- Obtain student counts to be used in completing the current year's expenditure budget worksheets from the prior year's ADE ADMS 46-1 report.
- Carry forward the prior year's budget balance amounts for each of the Classroom Site Funds to the current year's expenditure budget.
- Classify all transactions in accordance with the USFR Chart of Accounts (§III).
- Retain documentation for each journal entry that contains explanations, attachments, or references to support the entry, and the signature or initials of the individual making the entry and the official authorized to approve it.
- Require district management to review and approve all journal entries before they are recorded in the accounting records.

- Include the description, identification number (tag number), location, and the month and year of acquisition for each item on the stewardship list.
- Prepare a disposal form for disposal of assets by sale, trade in, loss, obsolescence, or damage. The form should be prepared by the principal or individual responsible for the physical control of the property and should be approved by the Governing Board or authorized designee.
- Verify that budgeted and actual expenditures reported on the AFR agree to the District's expenditure budget. The District should assign a second employee to verify that amounts reported on the AFR are accurate and agree with the District's expenditure budget before submitting it to ADE and the CSS.
- Submit the AFR to the CSS by October 15. Documentation to support the timely submission of the AFR should be retained.